

## Human Resource Accounting – Adaptation Issues and Challenges

*S. N. Venkatesh*

Research Guide, Seshadripuram First Grade College  
(A recognized research Centre of University of Mysore)  
Yelahanka new town, Bangalore

*Shankar. R*

Research scholar, Seshadripuram First Grade College  
(A recognized research Centre of University of Mysore)  
Yelahanka new town, Bangalore  
saisrishankar@gmail.com

### Abstract

Human resource is a dynamic term. If you are wishing to achieve something without the assistance of human force, it is unnatural and impossible. The relevance of human force came into existence because of the emergence of service industries across the globe. Of course, the manufacturing industries too using the human force in a well manner, but in case of service industries the prime raw material of the unit itself Human resource. The creativity, skills, competency and capability of human cannot be replaced by any machines. Even, the so-called super power machines have to be handled by human and not else. The growth and development of any organizations depends upon the quality of human force they have with them. Therefore, the organizations have to follow Human Resource Accounting in one or another way. A small disclosure of human resource wealth matters a lot in case of an organization.

This study is a descriptive one, which focuses on the problems and difficulties in implementing the human resource valuation and its disclosure in financial reports of an organization. From this study, it could be inferred that the apex bodies related to accounting and disclosure and government should take proper measures in order to make the Human Resource Accounting mandatory in India.

**Keywords:** *Human resource, Accounting, Valuation, Disclosure, Problems.*

### Introduction

Human resource is a significant and vital part of any organization. Yes, the organizations need machines and capital. However, at the same these machines and capital need to be handled by a unique resource called human. Only human can manage machines and produce the goods using the proper methods and techniques. Of course, organizations need all the important factors of production, but without the proper human force, no organization can achieve its goals, though it has proper capital, machines and land. Industrial revolution paved additional and special importance to physical components like machinery, materials and so on. The physical components were at their peak at this point of time. The new economic policy 1991 had provided a tremendous opportunity to global economies. Liberalization, privatization and globalization gave a new way to operate across global without any hurdles. In this time, the service industries got their own prominence and scope across the globe. Human intellectual skills and capabilities have been highlighted as the service industries have flourished like mushroom around the world. As a result, the human resource has unique importance and service industries depended much on human force for their operations and success. Human knowledge was considered as the top most factor in the service

industries. The interested parties of organizations started to observe the human force inside organization and reacted upon it. If an important person from an important position of a company is retired from his employment, it affects the market value of share and capitalization of the organization. Yes, human value will influence the whole worth of an organization undoubtedly. Therefore, gradually the organizations have started to disclose the human values on their own ways. The costs related to human force like recruitment, selection, training and development, staffing, etc., are disclosed in the annual reports of an organizations. Hence, Human Resource Accounting got an immense scope among the organizations. Human Resource Accounting is an accounting wing and technique of quantifying the human wealth and disclosing the same in the financial reports of an organization. The interested parties like shareholders, employees, creditors, bankers, government, apex bodies, and researchers so on were being targeted and Human Resource Accounting started to disclose the human wealth to these people. At the same time, very fewer companies in India have adopted this practice of disclosing the human wealth in their financial reports. Let us discuss the reason behind the less adaptation of Human Resource Accounting among Indian companies in the upcoming part of this study.

### **Objectives of the Study**

1. In order to analyze the scope/relevance of Human Resource Accounting among Indian companies,
2. In order to analyze the various costs related to Human Resource,
3. In order to discuss the hurdles behind the implementation of Human Resource Accounting in Indian companies,
4. In order to give suggestions to overcome the implementation related problems of Human Resource Accounting in India.

### **Research Methodology**

This is a descriptive study in nature, which is completely based on secondary data. Earlier research articles, books and web sources have been studied thoroughly in order to construct this study. The data from various sources have been analyzed and scrutinized in order to justify the researcher's thoughts and clarifications.

### **Problem Statement**

The prime problem associated with the Human Resource Accounting is absence of legal provisions in Indian context as well as across the globe. Because of said reason, the Human Resource Accounting is suffering from a structured guideline, uniformity and a standard model in order to value the Human Resource of an organization. Even some organizations are not showing interest in Human Resource Accounting because of absence of legal provisions related to Human Resource Accounting.

### **Review of Literature**

1. "Human resource accounting disclosures practices in Indian companies" by Divya Sharma, Dr Rajendra (2017), Amity University.

The main motto of the present research is to study the HRA practices among the public sector and private sector undertakings. The study has been conducted considering five public sector and five private sector companies as samples. The important findings of the research were (i) companies are not giving clarification regarding the HRA model adopted (ii) value addition is not regularly monitored and enhanced in the proper form (iii) Evaluation of team work is not done.

The researcher proposes some suggestions as (i) Evaluation of role of HRA (ii) considering the role of HRA in achieving quality (iii) Appropriate method of HRA to be adopted in organizations and so on.

2. **"Human resource accounting and organizational performance" by Sunil Kumar, Priyanka Awasthi (2018).**

The focus of this study was to recognize the connection between HRA and organizational performance quality. In this study more than seventy most relevant articles related to human resource accounting analyzed.

Through the analysis of the earlier literature, it was found that performance of organization is impacted by Human Resource Accounting. The cost expended on human force adding wealth to an organization. Investment on human resources always led to efficient organizational performance.

3. **"Analytical study of Human resource accounting practices – an Indian experience" by Sunil Kumar, Mamta Ratti (2012).**

The above study focuses on the calculation of the value of human resources at different levels of organization and to determine the human resource efficiency level. The period of study is restricted to 2007-08 and data collected from the selected 15 Indian companies, which are being selected as the samples on convenient sampling technique.

The researcher has concluded that stating that value of human resources do not depend upon the number of persons working in the organisation. Higher salaries and emoluments towards the workforce yields high valuation of human resource and vice versa.

4. **"The Relevance of Human Resource Accounting to Effective Financial Reporting" by Akintoye (2012).**

The study aimed to justify the requirements of examining and evaluating human capital in organizations. It was an analytical study to analyze the impact of Human Resource Accounting on companies' profitability and capital employed.

The researcher has suggested that the Human Resource Accounting informations have to be disclosed. The researcher has justified his/her suggestion by giving the reasons that the HRA Valuation increases the net worth of the company, which results in increasing the profitability. HRA will communicate the relevant information to the investors, which could be used to determine company's profitability out of which they can make proper investment decision in the future.

5. **"A Study on Human Resource Accounting Methods and Practices in India" by Dasari Pandurangarao, Dr.S.Chand Basha, Devarapalli Rajashekhar (2013).**

The prime objective of the study was to highlighting the significance of Human Resource Valuation and the methods to measure the value of human resource. Benefits of Human resource accounting have been briefly analysed in the study.

On the other part the researcher has targetted on Infosys company's practice of disclosing the human resource values. The researcher stated that Infosys company has a good practice of valuing its human resource and disclosing the same in its financial reports. The researcher concludes the study by stating, more number of companies are not following the HRA practices. Both theoretical and practical level efforts to be done in this case to encourage the organizations.

**6. "A comparative Study on Human Resource Accounting disclosure in Indian companies" by Sanjay Ramnaresh Gupta (2018).**

The main objective of the research study is comparing of six Indian companies to find the status of human resource disclosure practices. In this study, purposive sampling technique has been adopted for selecting six Indian companies. Three companies from public sector (BHEL, ONGC and CCI) and three companies from private sector (ROLTA, INFOSYS and ACC), were considered in the study.

The result of the study shows that, the public sector companies are having better HRA practices than that of private sector companies in India. Hence, private companies should adopt good HRA practices for better decision making in the organisation.

### **Human Resource Costs**

Well known academicians and researchers have stated their opinion that human resources are important assets of any organizations. Hence, any costs incurred in the process of acquisition and staffing of human resources must be treated as an investment. Therefore, the investment whatever an organization is making towards human resource is cost of human resources development for betterment of future. The costs related to human force like recruitment, selection, training and development, staffing, etc., forms the major components of investment in human resources.

**The various human resource cost are briefly discussed as below.**

**1. Acquisition Cost:** It is an important cost incurred in acquiring the required human force for the job available in an organization. Acquisition cost includes the cost expended in the process of recruitment, selection and placement in an organization. In these processes, cost will be accounted for both selected and not selected candidates.

**2. Training and Development Cost:** Training is very much essential to improve the credibility of work force and thereby productivity of organization improves. It is a type of cost expended to provide training to employees of an organization in order to enhance the skills and abilities to perform their duties. The training cost includes on the job training cost, off the job training cost, employee development programmes, seminars and conferences cost etc.

**3. Welfare Cost :** Of course, it is employer's prime duty to protect the welfare of employees of the organization. The employer need to provide health care facilities, housing facilities, educational facilities to children of employees and further social security measures like pension, gratuity and so on. Finally, the organization has to protect the interest of employees and need to enhance the quality of life and living standards. Therefore, the organization will incur various costs related to the above said causes.

### **Limitations of Human Resource Accounting**

- I. Lack of accounting provisions, as there are no specific guidelines by Indian and International accounting boards (standards).
- II. Government and the tax authorities are kept themselves neutral in connection to HRA.
- III. There is no proper integration between HRA and traditional accounting methods.
- IV. Future events are uncertain, but HRA depends on future for valuing the human resource.
- V. Conceptual dilemmas are hindering the interest of HRA.

- VI. Resistance from trade unions and employees.
- VII. Inadequate research works and awareness related to HRA.
- VIII. Organizations have low importance towards the HRA.

### **Role of Financial Accounting with Reference to HRA**

The organizations in India, especially service industries have recognized the importance of Human Resource Accounting and they are gradually shifting from financial capital concept to intellectual capital concept. The relevance of intellectual capital is in its peak now a day. On the other hand, financial accounting is made mandatory and every organizations have to follow the same in India. Financial accounting is a statutory requirement in Indian context and it is the best tool for recognizing the financial result and the position of any organization.

As the Indian accounting standards board has not recognized the human resource accounting and valuation in its GAAP regime, financial accounting is not paving the place for human resource values in financial statements and records. Therefore, there is no co-ordination between financial accounting and the human resource accounting in this regard. Financial accounting is following conservatism concept, wherein actual expenses incurred and expected expenses and liabilities will be considered in accounting process. At the same time, rule of conservatism concept refuses to consider the future gains and incomes, as it is against to the norm. Here, human resource valuation suffers a lot, as there no provision for recognizing the future revenues from human. On the other hand, other accounting concepts states that the financial reports should disclose fair value in records, so that financial position and revenue status reflects fairness. Therefore, human resource valuation works against to above stated concepts.

Besides the above stated points, we need to identify some points in financial accounting, which facilitates the importance of human resource accounting. The notified points are discussed as below.

While preparing the profit and loss account or income statement we ignore the contributions made by the human resource and we record the expenditures made towards the human resource. So, ignoring the human contribution does it provides fair value of the statement?

- I. Expenditures made towards the human resource for various purposes will be debited to profit and loss account, but what about the returns earned out of the resource?
- II. If financial accounting is considering the human resource only in the expenditure perspective, then why do not financial accounting consider the net worth of human resource separately?
- III. Besides the above stated challenges, we can recognize some other important issues, which are faced by Human Resource Accounting. Thus, there are hurdles in implementing the Human Resource Accounting in India. They are stated as below.
  - i. The trade unions are feeling fear about the implementation of Human Resource Accounting and thus there is a resistance from them. Trade unions feels that valuing the human resource will have negative impact on employees. HRA may create differentiation between employees and some employees may feel less value attached to them than they deserve. It will definitely decrease their morale in the work place and this may create negative situation in the organisation.
  - ii. Human Resource Accounting assumes that the employee will be there in a company for long run, which is impossible and impractical. Employee turnover is very common in an organisation and usually

employees finds a better place for their working. Therefore, assumptions of Human Resource Accounting may go wrong.

- iii. Misrepresentation (manipulation) of human value or fraudulent valuation of human asset may lead to wrong fixation of pay. Employee whose asset is valued above the status may demand for high pay scale than he deserve.
- iv. Accounting standard board is not yet acknowledged the concept of Human Resource Accounting in India and there is no particular accounting standard for treating the human resource valuations.
- v. As there no acceptance of Human Resource Accounting by the Accounting standard board and ICAI, the taxation department too will not accept the HRA and thus the tax authorities will not consider treatment of human resource valuation.
- vi. Human Resource Accounting implementation may be expensive for small business firms, as it will seek additional system, software and methodology.
- vii. Unlike other physical asset, human resource cannot be owned by any organization. Hence, there is no option for retaining the same for long run. This is again one argument against Human Resource Accounting.

Therefore, we can have solutions for the above statements as stated below.

- I. Universally accepted accounting provisions (guidelines) for Human Resource Valuation have to be developed. The apex accounting bodies such as ASB and ICAI have to take initiative in this regard.
- II. The government has to take steps towards making Human Resource Valuation mandatory in their financial reports. Government must introduce some incentives to corporates in order to make them adopt Human Resource Accounting.
- III. The organization must understand the scope of Human Resource Valuation and should adopt the same in their disclosure practices in order to attract the investors and outsiders. The organizations have to motivate employees in this regard and should introduce Human Resource Audit as an initial step towards Human Resource Accounting. As a first step towards Human Resource Accounting some basic parameters such as sales per employee, profit per employee, and cost per employee so on must be introduced in the financial statements.
- IV. The employees and trade unions must know the importance of valuing the human force and should support the organizations in this regard. A good valuation of an employee demands a good pay scale and benefits, and thereby standard of an employee increases.

## Conclusion

Human Resource Accounting is an extension of human resource management and it is a new wing of accounting. Despite of human resource has got global recognition due to its requirement, skill, ability and intellectual property, human resource accounting has got less identity due to several factors. Some companies have adopted Human Resource Accounting in their financial reports, but not in a uniformed manner. Many organizations are not in a position of thinking about HRA. However, it is the need of the hour to disclose our human force quality/strength to stakeholders of the organization. Hence, the apex accounting bodies, preparers and the governments have to take immediate steps towards forming standard policies/regulations in order to implement HRA among disclosure practices of organizations. Modifications have to be done in companies Act 2013, as it plays a vital role in organizations financial report disclosures.

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